Law Offices

MARTINEZ & CURTIS, P.C.

2712 North Seventh Street
PHOENIX, ARIZONA 85006-1090

Telephone (602) 248-0372
Telecopier (602) 266-8290

Michael A. Curtis
Jay M. Martinez (1943-2000)
William P. Sullivan
Susan D. Goodwin
Larry K. Udall
Anja K. Wendel
Paul R. Michaud
Kelly Y. Schwab
Phyllis L. New

OF COUNSEL

Joseph F. Abate
Thomas Hine
G. Eugene Neil
Jeffrey A. Katz

REFER TO FILE NO. 109-29-18

May 22, 2002

HAND-DELIVERED

E-00000A-99-0205

Mr. Ernest Johnson, Director
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

RE: NEC's Environmental Portfolio Standard Compliance Report

Dear Mr. Johnson:

Pursuant to A.A.C. R14-2-1618 (D), attached is Navopache Electric Cooperative, Inc.'s ("NEC") Environmental Portfolio Standard Compliance Report covering the period July 1, 2001 through December 31, 2001. This Compliance Report is intended to replace NEC's April 22, 2002 letter to the Commission, which was submitted in error.

If you have any questions, please contact me at 602-248-0372.

Very truly yours,

Paul R. Michaud

Paul R. Michaud
For the Firm

PRM/klc

Enclosure: NEC EPS Compliance Report

cc: Wayne A. Retzlaff, NEC (w/ Enclosure)
Paul O'Dair, NEC (w/ Enclosure)
Dennis Hughes, NEC (w/Enclosure)
John Wallace, GCSECA (w/ Enclosure)
Pat Williams, Utilities Division (w/Enclosure)
Ray Williamson, Utilities Division (w/Enclosure)

109\-29-18\letters\.Ernest Johnson.eps compliance report.052202

NAVOPACHE ELECTRIC COOPERATIVE, INC

ENVIRONMENTAL PORTFOLIO STANDARD COMPLIANCE REPORT (JULY 1, 2001 THROUGH DECEMBER 31, 2002)

NEC BACKGROUND

Navopache Electric Cooperative, Inc. ("NEC") is a rural electric transmission and distribution headquartered in Lakeside, Arizona. NEC provides service to 30,000 customers. NEC's service territory is approximately 10,000 square miles in east-central Arizona and west-central New Mexico. NEC owns and operates 230 miles of 69 kv transmission line and nearly 2,800 miles of 14.4/24.9 kv distribution line. NEC employs approximately 100 full-time employees. NEC is currently an all-requirements wholesale power customer of Public Service Company of New Mexico ("PNM"). In 2001, NEC delivered 3.2 gigawatt hours in retail sales to its Standard Offer customers.

ENVIRONMENTAL PORTFOLIO STANDARD (EPS)

In Decision No. 62506, dated May 4, 2000, as codified in A.A.C. R14-2-1618) ("EPS Rule"), the ACC issued its EPS requiring NEC and all other Arizona Regulated Electric Service Providers to include in their retail electric sales mix a specified amount of electricity derived from eligible renewable resources The life of the EPS requirement under the EPS Rule runs from 2001 through 2012

Under the EPS Rule, eligible renewable resources include generation from solar-electric, solar water heating, solar air conditioning, landfill gas, biomass, and wind resources and technologies. The energy requirement under the EPS Rule started at 0.2 percent of all retail kWh sold in 2001. The energy requirement escalates to 1.1 percent in 2007 and remains at that level through the end of the EPS requirement.

NEC EPS PROGRAM DEVELOPMENT

In early autumn of 2000, in compliance with the EPS Rule, NEC's EPS Study Team began evaluating possible options for compliance with the EPS requirements. On November 14, 2000, NEC issued a Request for Proposal ("RFP") to potential renewable system integrators. NEC's RFP requested renewable system integrators to provide the Cooperative with proposals sufficient to allow NEC to meet its renewable energy requirements under the EPS Rule.

NEC received nine proposals from renewable system integrators in response to its RFP. Based upon these proposals, the NEC Study Team recommended an EPS implementation plan to the NEC Board of Directors on March 27, 2002, which the Board approved.

The EPS implementation plan is intended to allow NEC to implement a practical EPS program in substantial compliance with the EPS Rule at the lowest cost to its members. Under the NEC EPS implementation plan, the Cooperative will purchase the maximum allowed non-solar renewable energy in the form of certificates (most likely landfill gas) and install grid-connected photovoltaic ("PV") solar generation stations on the NEC power system to satisfy the solar-electric requirement of the EPS Rule.

NEC's decision to install grid-connected PV solar generation was reached through an IRP process focused on the available technologies to satisfy the EPS solar-only resource requirement provision of the EPS Rule. In addition, NEC's PV solar generation stations will allow the Cooperative to develop a "green pricing program" for its members who choose to support renewable energy.

As shown on the attachment to this report, for the period July 2001 through December 2001, NEC was able to comply 100% with the Non-Solar portion its EPS requirement, which was 50% of NEC's total compliance requirement. During this same period, as indicated above, NEC has worked diligently towards complying with the Solar Electric requirement under the EPS Rule. However, the lead-time required for developing and financing Solar Electric installations is such that NEC's first Solar Electric installation will be completed beginning in 2002 with additional installations completed every year forward through the end of the EPS Program. Please see NEC's Summary Of Proposed EPS Program Solar Electric (PV) Installations shown on the second page of the attachment to this report.

NEC EPS REQUIREMENTS AND COSTS

As indicated above, NEC can maximize cost savings under the EPS, in years 2002 through 2003, by satisfying up to 50% of its EPS requirement through the procurement of non-solar resources. For years 2004 through 2012 (the end of the EPS program), NEC can satisfy up to 40% of its EPS requirement through the procurement of non-solar resources. Thus, in compliance with the EPS over the twelve-year life of the EPS program, NEC estimates that it must purchase approximately 16.7 million of non-solar kWh certificates at a total cost of about $400,000. It is worth noting that as authorized by the NEC Board of Directors, NEC executed a sales contract for the purchase of landfill gas credits, and in so doing has already satisfied 100% of its non-solar requirement, which is half of its entire estimated EPS requirement for the year 2002.

Under the EPS, for years 2002 and 2003, NEC must satisfy at least 50% of its EPS requirement through solar-electric only resources. For years 2004 through 2012, NEC must satisfy at least 60% of its EPS requirement through solar-electric only resources. Thus, under NEC's EPS implementation plan, NEC must purchase approximately 11 million solar-electric derived kWh. This equals 627 kW of PV facility capacity. NEC would install the 627 kW capacity in annual increments over the life of the EPS program. We estimate the total cost for NEC to comply with the non-solar requirements of the EPS to be about $4.9 million.

Accordingly, NEC's total cost to fully comply with the EPS over the twelve-year life of the program for the purchase of landfill gas certificates and the installation of 627 kW capacity of PV generating stations will be approximately $5.3 million.

NEC EPS PROGRAM FUNDING SOURCES

NEC's available funding to comply with the requirements of the EPS comes from four sources: (1) the EPS surcharge already on member bills; (2) the reallocation of DSM adder already on member bills; (3) a Green Pricing Program for members who voluntarily choose to pay a premium for green energy; and (4) sales of conventional kWh. NEC estimates total available funding under the life of the EPS program from 2002 through 2012 to be $3.6 million as follows:

EPS Surcharge: The ACC EPS surcharge of $0.000875 has been on member bills for about seven months. Thus far, the EPS surcharge has collected about $92,000. From 2002 to 2012, the EPS surcharge will collect approximately $2,080,272 to fund NEC's EPS program.

DSM Adder: The ACC has required NEC to have a DSM Adder for the past several years to fund Commission authorized DSM programs. The ACC now requires that all DSM monies be reallocated to the EPS to help fund EPS required programs. Thus, from 2002 to 2012, the DSM adder will collect an additional $1,197,636 to help fund NEC's EPS program.

Green Pricing: Navopache is allowed to institute a Green Pricing Tariff under the EPS program. Under a Green Pricing program, members can choose to pay a premium ($0.125 per kWh) to purchase green energy generated by NEC's PV facilities. Although difficult to predict the level of participation in the Green Pricing Program, conservatively the Green Pricing Tariff is expected to collect an additional $96,800 over the life of the EPS program.

KWh sales: The PV facilities developed by NEC under its EPS program will be grid-connected and are expected to displace kWh required to be procured by NEC from Public Service Company of New Mexico ("PNM"). The displacement in kWh will save NEC approximately $232,360 over the remaining life of the EPS program.

As explained above, NEC's total available funding under all four funding methods over the total life of the EPS program from 2002 through 2012 is estimated to be $3.6 million. NEC's EPS Program Funding Summary is shown the attachment to this report.

EPS PROGRAM FUNDING MISMATCH

As shown above, there is a matching problem between the amount of funding NEC will collect over the life of the EPS program and the estimated cost to NEC to meet its required renewable energy levels under the EPS program. Specifically, NEC estimates that it will collect approximately $3.6 million to fund the EPS program, but the cost of complying with the EPS program is estimated at $5.3 million. The reason for this mismatch is that the cost of PV has not yet dropped as anticipated by the ACC. Thus, the current level of EPS funding authorized by the

ACC does not match the true cost of PV installations required under the EPS Rule. Therefore, under the current funding regime, NEC will have monies available to comply with 76% to 80% of its EPS requirement.

Accordingly, NEC's Board of Directors has authorized NEC to move forward with its EPS program at the $3.4 million funding level only. This would allow NEC to substantially comply with the EPS and at the same time not incur any additional costs beyond what the Cooperative is already collecting from the EPS surcharge and the DSM adder.

Under the reduced EPS program, NEC intends to: (1) continue to purchase landfill gas certificates or other non-solar certificates for 100% of its non-solar requirement at a total cost over the life of the EPS program of approximately $400,000; and (2) reduce its total installed PV generation capacity from 627 kW to 381 kW. This would reduce PV installation costs over the life of the EPS program from $4.9 million to $3.0 million. Therefore, the total cost of NEC's EPS program over the life of the program would be $3.6 million, which matches NEC's available funding of $3.6 million, including $200,000 for total program administrative, marketing, and legal costs. NEC's EPS Program Funding Summary is shown on the attachment to this report.

NEC EPS PROGRAM RUS LOAN REQUEST

As explained, NEC must acquire financing to fund the upfront capital costs associated with the PV installation portion of NEC's EPS program. To this end, the Cooperative has made a loan request to RUS in the amount of $3.4 million. NEC cannot proceed with construction of the planned PV facilities until RUS approves the loan request and the ACC authorizes NEC to execute the loan.

NEC EPS REQUIREMENTS AND COMPLIANCE FOR PERIOD (JULY 2001 THROUGH DECEMBER 2001)

DESCRIPTION	kWh REQUIREMENT
Retail Sales kWh for Period July 2001 through December 2001	150,000,000
2001 NEC EPS Requirement (0.2% of Retail Sales)	300,000
Solar Electric Resource Credits Applied To EPS % Goals	0
Non-Solar Resource Credits Applied to EPS % Goals	0
Purchases of Solar Resource Electric Credits Applied to EPS % Goals	0
Purchases of Non-Solar Resource Credits Applied to EPS % Goals	150,000
Solar Electric Resource Credits in Meeting 7/01 - 12/01 EPS Requirement	-150,000
Non-Solar Electric Resource Credits in Meeting 7/01 - 12/01 EPS Requirement	0
Total Excess/Shortfall For 7/01 - 12/01 Period	-150,000

NEC RENEWABLE ENERGY PROGRAM EXPENDITURE SUMMARY

PROGRAM	7/01 - 12/01 PERIOD	LIFE-OF-PROGRAM
Solar Electric	$0	$3,000,000
Landfill Gas	$3,750	$400,000
Other Renewable Technologies	$0	$0
Administration & Legal	$0	$180,000
Marketing	$0	$27,000
TOTAL	$3,750	$3,607,000

NEC RENEWABLE ENERGY PROGRAM FUNDING SUMMARY

Description	7/01 - 12/01 PERIOD	LIFE-OF-PROGRAM
EPS Surcharge	$46,000	$2,080,272
Reallocation of Demand-Side Management	$0	$1,197,636
Green Pricing Program	$0	$96,800
KWh Sales	$0	$232,360
TOTAL	$46,000	$3,607,068

NEC PLANNED SOLAR ELECTRIC GENERATION INSTALLATIONS

Location	YEAR	CAPACITY (AC)	EST. COST
St. Johns	2002	86	$739,793
Blue Ridge High School (Phase I)	2003	38	$376,042
Round Valley	2004	87	$677,678
Show Low	2005	62	$443,996
Concho	2006	24	$172,717
Springer Mountain	2007	25	$169,960
Blue Ridge High School (Phase II)	2008	11	$84,229
Cibecue (Phase I)	2009	12	$79,737
Cibecue (Phase II)	2010	12	$77,404
Cibecue (Phase III)	2011	12	$75,143
Cibecue (Phase IV)	2012	12	$72,949
TOTAL		**381**	**$2,969,648**